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NATIONAL INTELLIGENCE DAILY CABLE

Thursday June 9, 1977 CG NIDC 77-133C

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NATIONAL SECURITY INFORMATION

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National Intelligence Daily Cable for Thursday, June 9, 1977

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The NID cable is for the purpose of informing senior US officials.

CONTENTS

25X1

USSR-US: Tass Report on Detente

Page 2

25X1

JAMAICA: Deteriorating Economy

Page 5

PAKISTAN: Situation Report

Page 7

25X1

UK: Dark Wage Control Prospects

Page 12

JAPAN - SOUTH KOREA: Shelf Agreement

Page 13

PHILIPPINES: Military Clashes

Page 15

25X1

Approved For Release 2007/03/06 : CIA-RDP79T00975A030200010016-8

25X1

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**USSR-US: Tass Report on Detente**

[Redacted] The Soviets have sharply criticized President Carter for his assessment of Moscow's implementation of the Helsinki agreement. They have warned that his statements could have an "adverse effect on Soviet-American relations and detente as a whole." Moscow's message appears to be that it will tolerate criticism from Congress and US media on human rights issues but that the President's report and Secretary Vance's testimony on Monday are different matters. Soviet statements on SALT, meanwhile, have been expressing the same critical attitude toward US intentions that Moscow adopted after the Secretary's talks with Soviet leaders in March.

25X1 [] Yesterday's *Pravda* carried a Tass report from Washington that linked the President with the "enemies of detente." This is the closest the Soviets have come in recent months to charging him with a deliberate attempt to damage detente. The article betrays Moscow's anger at being unable to prevent a possible confrontation over human rights at next week's preparatory session in Belgrade for review of the Helsinki government.

25X1 [] A Tass commentary on Tuesday by senior political observer Yury Kornilov makes the point that the accusations of the US press against the USSR are one thing but that it is quite another matter when the President "openly encourages and kindles this ballyhoo." This statement indicates that Moscow will tolerate criticism from the US on human rights so long as it could be publicly viewed as unofficial and does not therefore seem to challenge Soviet prestige and doctrinal positions.

25X1 [] Both commentaries repeat the allegation that dissidents in the USSR are "agents and accomplices" of US intelligence services--the leitmotif of the recent Soviet counteroffensive on human rights. This reflects the option Moscow has developed to hold a show trial of arrested dissident Anatoly Shcharansky. Such a trial could feature allegations that US diplomats and newsmen have acted as conduits between the CIA and Soviet dissidents.

25X1 [] Soviet media are still giving a cool reception to the President's remarks on SALT and are pointing to US weapons developments as further confirmation of a gap between the administration's words and deeds regarding strategic arms limitations. In a broadcast to the US last week, a senior Tass official said the "increased testing" of cruise missiles is a further indication of Washington's efforts to secure an advantage at the expense of Soviet security and is "in violation of US-USSR summit agreements." []

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JAMAICA: Deteriorating Economy

[] *Jamaican Prime Minister Michael Manley is now following the advice of political moderates by seeking assistance from the International Monetary Fund and industrial nations, but sufficient financing is proving difficult to obtain. If Manley's moderate stance fails to produce results in a few months, he will probably again turn to his radical advisers. The result probably would adversely affect US interests.//*

[] *//Jamaica faces a sharply tightened foreign exchange bind this year. Although the current-account deficit is declining sharply because of increased bauxite and alumina sales and continuing import constraints, the capital account will get much worse. This is a result of higher debt-servicing obligations, a further reduction in capital receipts, and continuing capital flight. Despite severe austerity measures and a probable IMF loan, Jamaica faces a foreign payments gap of about \$100 million in 1977, mainly in the third quarter.//*

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[] //The battle among Manley's advisers over the government's approach to the economic dilemma has so far passed through two distinct stages. The first culminated in January--about a month into Manley's second term--and represented a high-water mark in the influence of young Marxist-oriented radicals in the ruling party. Manley named several of them to key ministries responsible for implementing social change and assigned others to draw up an "emergency production program." He also said he would look to the USSR for economic assistance.//

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[] //By late April, however, Manley had significantly altered his tactics. Disappointed by the response from the USSR and the Soviet-dominated Council for Mutual Economic Assistance, as well as by the failure of the radicals to devise a program that would get the economy moving, Manley, at least at that time, rejected their economic schemes.//

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[] //He turned once again to his more orthodox economic advisers for a plan to meet the stipulations of the IMF, which he had vilified a few months earlier. At the same time, party moderates--led especially by Foreign Minister Patterson--began strenuously to oppose the radicals' efforts to expand their power base in the government and party.//

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[] //The radicals have been regrouping and waiting for an opportunity to prove to Manley that they are correct in contending that there has been no basic change in US policy toward Jamaica. They have taken pains to dissociate themselves from attempts to obtain assistance from the West.//

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[] //For example, two leading radicals who were named to the Jamaican team that recently met with a US economic mission absented themselves from every session. The radicals, moreover, have apparently tried to undermine relations with the US through a story they planted in the press that was designed to raise false expectations concerning the amount of future US assistance.//

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[] //If economic problems worsen, the result will be heightened political instability. Manley is likely to suffer a significant loss in popular support as unemployment mounts, inflation increases, and basic goods become unobtainable. Intra-party tensions will probably increase.//

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[REDACTED] //Unless Jamaica can find more foreign financial help--including debt rescheduling--than is now in sight, Manley will have essentially two options: tough it out, or boost bauxite taxes again. If he chooses the first, Jamaica would have to slash imports by as much as 20 percent below last year's depressed level. Even so, severe payments problems would persist over the next few years, requiring continued stiff austerity measures and increasing the likelihood of severe political problems.//

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[REDACTED] //At the moment, the odds are strongly against another bauxite tax increase--as long as Manley believes further foreign financial assistance will be available. If such aid does not materialize, he probably will turn back to his radical advisers, and a bauxite tax increase and other nationalistic pressures against US investments on the island could well follow.//

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[REDACTED] //Manley probably would also seek closer relations with Cuba. Although he apparently has been disappointed in the size of Soviet aid offers thus far, his attempt to lessen dependence on the US could lead to increased overtures to the USSR. Moscow is unlikely to provide cash aid but has indicated that some trade arrangement could be worked out, probably involving small purchases of bauxite and alumina.//

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[REDACTED] //Even if Jamaica nails down enough foreign loans to cover its payments gap this year, Manley will stick to his goal of creating a "democratic socialist" society. Manley's commitment to aligning Jamaica with the third world is also unshakeable. If relations with the US improve, however, differences could be dealt with in an atmosphere free of last year's undertones of hostility, and Manley would feel less compelled to identify with the more radical members of the third world.

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[REDACTED]

PAKISTAN: Situation Report

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[REDACTED] The political crisis has had a serious impact on the Pakistani economy. Strikes and curfews called during the three-month campaign to oust Bhutto have, on occasion, virtually shut down economic activity in major cities, leading to a decline in industrial production and shortages of raw materials.

[REDACTED] The Karachi area has been hardest hit; labor problems have slowed the unloading of ships and caused the port to be closed for several days. Transportation of goods from the port to the rest of the country has been disrupted, and industry in the Karachi area is estimated to have lost the equivalent of one month's production.

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[] Inflation, which was cut to 8 percent in 1976 from more than 20 percent in 1975, is rising again. Price increases have been fueled by substantial raises granted to government employees just before the March election, as well as by production losses and shortages. Pay increases in the private sector are likely to follow.

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[] Pakistan's finance minister cited political disruption as a factor when he recently lowered export targets for the year by some 18 percent. The balance of payments may also be affected by lower remittances from overseas workers. Pakistani workers, who were expected to contribute \$450 million in foreign exchange for the fiscal year ending June 30, may hesitate to send payments home because of political instability.

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[] Recently, a \$500-million commercial loan that Islamabad had been counting on was postponed. The banks that were to provide the loan--and the government of Iran, which had agreed to guarantee it--were apprehensive because of the political situation. []

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Next 1 Page(s) In Document Exempt

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UK: Dark Wage Control Prospects

[Redacted] // Jack Jones, the chief of Britain's largest labor union and a key figure in maintaining harmony between the unions and the government, has dealt a blow to Prime Minister Callaghan's chances of getting another restrictive national wage agreement. Jones' union of transportation workers decided last week not to risk a divisive floor fight at its annual

meeting next month, and to sponsor instead a resolution calling for an "orderly" return to collective bargaining when current wage curbs expire on July 31.//

25X1 [] //Jones is now lined up with many other Trades Union Congress leaders who favor only an "understanding" with the government that the unions will not demand wildly inflationary pay increases in future contract negotiations. Union leaders are apparently prepared to promise to adhere to the rule that requires a union to wait one year before negotiating a new wage contract. This rule prevents militant unions from re-opening wage talks in attempts to keep up with the latest and most favorable agreements elsewhere.//

25X1 [] //If the one-year rule remains in effect, most major unions will not be eligible for new wage contracts until next winter or spring. Trades Union Congress officials believe this would help stave off the kind of wage explosion that followed when the Heath government ended pay controls in 1974.//

25X1 [] //Pressure from grass-roots union members for a return to collective bargaining is so strong that the Trades Union Congress is being forced to turn its attention to policing the current wage guidelines. Some unions are stalling their contract talks in hopes of doing better after controls end on July 31. []

JAPAN - SOUTH KOREA: Shelf Agreement

25X1 [] *The Japanese - South Korean continental shelf agreement, which took effect yesterday, paves the way for joint oil exploration and development of the East Asian continental shelf. South Korea ratified the agreement in 1974 but was increasingly frustrated in its efforts to explore for badly needed energy sources by prolonged Japanese debate on the issue.*

25X1 [] South Korea's interest in the continental shelf dates back to a 1968 UN survey indicating that the East Asian shelf, stretching 2,700 kilometers from the Yellow Sea to the Gulf of Tonkin, has excellent petroleum-bearing prospects.

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[] Seoul has been trying for some time to get drilling under way in the area where Japanese and South Korean claims overlap. It has granted a concession in the disputed area to a US-British consortium, the Korean-American Oil Company. According to the Japanese - South Korean agreement, any oil found in the jointly claimed area is to be shared equally.

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[] In Japan, the treaty has been a sensitive political issue for Prime Minister Fukuda's government. Most Japanese opposition parties have resisted increased cooperation with South Korea and have seen the issue as an opportunity to embarrass the government. Fukuda, while sympathetic toward South Korea, also has been interested in exploiting any new energy sources. Japanese concern over Chinese opposition to the agreement was an additional factor in the delay, although Peking has registered its objections in a low-key fashion.

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[] //The lower house of the Japanese Diet ratified the agreement early last month. To complete ratification, Fukuda and other Japanese leaders succeeded in extending the Diet session beyond June 8 so that a final vote by the upper house would not be necessary. According to Japanese law, if more than 30 days remain in the Diet session after a treaty is passed by the lower house, the treaty is automatically approved without upper house action.//

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PHILIPPINES: Military Clashes

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[REDACTED] A US embassy official who recently visited the area of the Muslim rebellion believes that the Philippine military, Christians, and Muslims all hope the cease-fire will continue. A general call to arms by the Moro National Liberation Front--the Muslim political organization--is unlikely, especially in view of the moderate stand that the Islamic Conference adopted last month on the Muslim question.

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[REDACTED] Local rebel leaders also are reluctant to resume the conflict on a major scale, but there remains a possibility that small incidents could grow into a larger conflict.

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